GOVERNMENT OF INDIA
CHEMICALS AND FERTILIZERS
LOK SABHA

UNSTARRED QUESTION NO:1112
ANSWERED ON:25.02.2003
LONG TERM UREA PRICING POLICY
ALE NARENDRA;IQBAL AHMED SARADGI

Will the Minister of CHEMICALS AND FERTILIZERS be pleased to state:

(a) whether the new pricing policy is likely to seriously effect the viability of 23 plants out of a total of 32 fertilizers plants in the country and is aimed at drastically reducing the farm subsidies;

(b) if so, the factual position in this connection;

(c) the details of comments/suggestions made by the tariff commission on these issues;

(d) whether State Governments were also consulted in formulation of the new policy;

(e) if so, the details thereof and the comments/suggestions of the State Governments incorporated in the new policy;

(f) whether fertilizers industry also debated these issues at a two day FAI seminar held in the month of December, 2002;

(g) if so, the details thereof;

(h) whether the Government have examined their suggestions; and

(i) if so, the extent to which those suggestions have been accepted by the Government?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF CHEMICALS AND FERTILIZERS (DR. CHHATTRA PAL SINGH)

(a) to (i) : The new pricing policy for urea units, scheduled to come into effect from 1.4.2003, has been formulated with the objective of encouraging efficiency based fertilizer pricing. The new scheme will be implemented in stages. Stage-I would be ofone year duration, from 1.4.2003 to 31.3.2004. Stage-II would be of two years durationfrom, 1.4.2004 to 31.3.2006. The modalities of the subsequent stages would be decided after review of the implementation of the Scheme during the Stage-I and Stage-II.

Under the new pricing policy, the existing urea units shall be given a concession which may be at the group concession rate or actual of the unit if it is lower than the group concession rate. In such a scenario, the urea units having low efficiency levels face the challenge of revamping their manufacturing efficiency. The outliers whose existing retention prices will be higher than the group concession rate by 20%, are to be granted an adjustment phase of one year during Stage-I. In this Stage, such outlier units will get rate of concession based upon group weighted average (excluding outliers) and a structural adjustment which will be 50% of the difference between their respective retention price and the group weighted average excluding outliers.

It is expected that at the end of this adjustment phase of one year, the inefficient outlier urea units will be able to attain efficiency levels of their respective groups.

The financial impact on different units will depend on their levels of operational efficiency.

The new scheme aims at greater transparency, uniformity and efficiency in subsidy disbursements to urea units and will induce urea manufacturing units to take cost reduction measures and be competitive.

New pricing policy for urea units has been formulated keeping in view the recommendations of the Expenditure Reforms Commission. The report of ERC wasexamined in consultation with State Governments, fertilizer industry, Tariff Commission and other concerned Ministries/Departments of Government of India.